



# Montana Association of Counties

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**TO:** Members of the State Administration and Veterans Affairs Interim Committee  
**FROM:** Sheryl Wood, MACo Associate Director  
**DATE:** October 30, 2012 (updated 11/14/12)  
**SUBJ:** Pension System Stakeholder Meeting Report

Honorable Chair Ingraham and Members of the Committee:

Following MACo's testimony at the August 8, 2012 State Administration and Veteran's Affairs Committee, the Committee requested that MACo coordinate a stakeholder's meeting to discuss concerns regarding the pension systems and provide a report to the Committee.

The Montana Association of Counties hosted a Pension System Stakeholder meeting On August 27, 2012. Representatives from nineteen stakeholder groups were invited, as well as legislative committees, legislative and agency staff, hundreds of interested legislators, legislative and gubernatorial candidates, and county elected officials. Thirty two individuals participated, either in person or via conference call, representing the following stakeholder groups and interested parties:

- Anaconda - Deer Lodge County
- Association of Montana Public Retired Employees (AMPRE)
- Custer County
- Lewis & Clark County
- Montana Association of Chiefs of Police (MACOP)
- Montana Association of Counties (MACo)
- Montana County Attorney's Association (MCAA)
- Montana Education Association/Montana Federation of Teachers (MEA/MFT)
- Montana League of Cities and Towns (MLCT)
- Montana Office of Budget and Program Planning (OBPP)
- Montana Police Protective Association (MPPA)
- Montana Public Employees Administration (MPERA)
- Montana Public Employees Association (MPEA)
- Montana Public Employees Retirement Board (MPERB)
- Montana Sheriffs & Peace Officers Association (MSPOA)
- Pondera County
- State Administration Committee/Legislative Finance Committee (SAVA/LFD)
- Sheridan County
- Stillwater County
- Yellowstone County

The following is a recap of the notes taken at the meeting:

Extensive discussion was held regarding MACo's concerns regarding the premise that local governments should be held accountable for the unfunded liability, when they have had no involvement in the decisions regarding investments, actuarial projections, financial management, plan design, etc., and their only opportunity to comment is at the legislative level. As stated during testimony, it is contradictory that when there is a funding surplus, local governments do not reap any benefits by

**MACO**

STATE ADMINISTRATION & VETERANS' AFFAIRS  
INTERIM COMMITTEE  
November 16, 2012  
**Exhibit 14**

refunded or reduced contributions; however, it becomes a “shared” responsibility to achieve actuarial soundness when there is a significant unfunded liability.

Discussion was held regarding MACo's proposal to reconsider the structure of the Montana Public Employees Retirement Board to include representatives of local government. MACo also expressed concerns that the individuals on the board are not required to have experience in or knowledge of actuarial work, investments, financial management, plan benefit design, etc. Additionally, the majority of the board members are plan beneficiaries, and there is no balance of contributors (employers) versus benefit recipients (employees).

Roxanne Minnehan (MPERA) reviewed the current PERB structure and appointment process, and noted that MPERA and PERB do not support expanding or modifying the board structure. Ms. Minnehan also noted that per the Montana Constitution, the board members administer the system, including actuarial determinations, as fiduciaries of system participants and their beneficiaries.

Senator Lewis commented that he supports local government having representation on the board, as local governments and their employees make up almost 50% of the system.

Commissioner Reno, Yellowstone County, added that their county believes board members should have a strong financial background, and should not have a conflict of interest.

Mike Sehestedt, MACo General Counsel, noted that the fiduciary responsibilities of the board to the system also include consideration of the benefits being paid out and the rates being charged.

Tom Schneider, MPEA, commented that they would not oppose restructuring the board, but noted that historically there has been strong local government involvement on the board. He concurred the board needs to take off their “employee” hat and focus on overall fiduciary responsibility. He added that restructuring the board is not going to solve the problem, as there is still a large financial hole that needs to be filled.

Jerry Williams, MPPA, stated he supports the board restructuring proposal and is very concerned about the trend of reducing benefits. Mr. Williams discussed the possibility of finding a continuing, long term source of pension system funding, such as fees or taxes, to remove the burden from employees and employers. Mr. Williams further noted that regarding benefit equity, tiers need to be eliminated, and the Sheriff's Retirement System needs to be a separate system to account for the hazardous duty and stress of the job for law enforcement.

Tom Schneider and Diana Fladmo, MPEA, provided a history of the system funding and the economy and expressed their support for the Governor's proposal. Mr. Schneider proposed additional fees and/or taxes that could be implemented to help fund the system. Ms. Fladmo added that it is important to preserve the defined benefit plan.

Discussions were held between Senator Lewis and Budget Director Villa regarding the defined contribution and the defined benefit plans, proposed legislation by both parties, and the pros and cons of each.

Alec Hansen, MLCT stated that we all need to look at the time frame to turn the system funding around. He reiterated that this needs to be done gradually and incrementally, with responsible investments into the market. The cities have agreed to help but will not pay more than they have to (their fair share), and the system should not be fixed on the backs of the employers or taxpayers, and employees need to be kept in mind.

Ms. Minnehan (MPERA) explained the PERB proposal to increase contributions by .25% per year up to 1% and monitor the effects. She added that they would like to see other revenue sources, and they support the Governor's coal tax proposal.

Yellowstone County Finance Director Scott Turner commented regarding the lack of substantive changes in the management of the system and its funding, i.e., the continued unattainable return on investment projections. Mr. Turner added that he supports the board restructuring, as the management of the pension system is highly complex in regards to investment strategies, funding, plan benefit design, and long-term impacts. *He also commented that the plan benefit design should be along the lines of workers compensation. Whatever benefits are provided for in the work comp plan is actuarially determined and then rates are determined to properly fund the plan. The MPERA board needs to design and recommend the plan benefit options; the actuary needs to project the costs for required funding for the associated plan options; and the legislature should decide which option they choose to implement and fund. (Amended 11/14/12 per Scott Turner)*

Lewis and Clark County Administrative Officer Eric Bryson, commented that there needs to be a plan for solvency regarding contributions, benefits and overall funding, and that local governments need to see the plan. He closed by saying there needs to be reasonable projections on rates of return, and that local governments need proposals so they can identify what their costs are, and any proposals need to be working towards, and ensuring, solvency and long-term sustainability of the pension systems.

#### **MACo's Closing Comments:**

It has been requested that local governments develop a plan for solving what is being promoted as the "local government obligation" for the unfunded actuarial liability; however there is still considerable question as to the obligation of local governments for the unfunded actuarial liability. In order for local governments to attempt to begin developing a plan, it is imperative that proposed legislation and detailed fiscal information be provided for evaluation and consideration. As of the date of this meeting, no bill drafts were available, and the fiscal information available is as of June 30, 2011. When current fiscal information is available and the numerous proposed bill drafts are available for review and consideration, MACo will continue to evaluate and monitor the proposed fiscal impacts and legislative changes, and offer our comments and suggestions to the appropriate Committees.

As stated previously, MACo is of the opinion that if there is going to be a new policy of local governments being held fiscally responsible when there is an unfunded actuarial liability, they should have a vote in the policy decisions being made by the Board and realize an equitable benefit when there is a funding surplus.

MACo further believes the board should be established equally between employers and employees, and those members should be nominated by the organizations they represent, to ensure fair and equitable representation. MACo also believes that minimum education and experience guidelines should be established for representatives on the board, to ensure that the systems are being governed by individuals with proven knowledge and experience in financial management, actuarial work, plan benefit design, and/or management/administration.

While it has been stated that the meetings are open to the public, and local governments are able to offer testimony, there is a distinct difference between having a voice and having a vote in the policy decisions. Over the next few months, MACo will be working with strategic local government partners, stake holders, and legislators, to draft a bill proposing a restructuring of the board and outline minimum requirements for eligibility to serve on the Board.

While there will be considerable discussion, and many, many proposals over the coming months regarding the funding and structure of the pension systems, MACo has established the following basic philosophies, which will help guide our comments during the upcoming months:

- It is imperative to keep our employees in mind to continue our ability to offer a sound, stable retirement as a recruitment and retention tool;
- Fiscal responsibility should not be shifted to, or placed on, the backs of the employers or the taxpayers;
- Any additional funding requirements shifted to local governments should be offset by an equitable revenue stream and/or funding source;
- All proposals should be carefully evaluated and considered, with sound fiscal data and actuarial projections regarding the long-term impacts to the actuarial soundness of the systems, including achieving funding solvency and long-term funding sustainability;
- Employer/employee contributions should be equitable at 50-50; and disparities among contribution levels and benefits should be corrected over the long-term to achieve equity;
- Any proposed “trigger” should consist of an equitable employer/employee benefit, through equitable contribution reductions for both;
- Plan benefits should be standardized for all members of PERS and SRS and funded to maintain the benefit levels, to provide equitable benefit for all members, regardless of when they enter the system or begin drawing benefits.

MACo would like to thank all who participated and provided insight and comments into the concerns regarding achieving and maintaining the actuarial soundness of the Montana Public Employees Retirement Systems. While no real solutions were presented, it was a positive and constructive meeting with open and honest discussion. We look forward to working with our partners and the Legislature over the coming months to begin a path of achieving fiscal solvency and long-term sustainability of our pension systems, and to therefore continue to be able to provide a fiscally solvent and sustainable retirement benefit plan for our valuable public employees.